

Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 ISO-00 TRSE-00 FS-01 ABF-01 A-01 OPR-02

PC-04 AID-20 CIAE-00 COME-00 EB-11 FRB-02 INR-10

NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03 CIEP-02 LAB-06

SIL-01 OMB-01 NSC-07 SS-20 STR-08 CEA-02 FEA-02 FPC-01

INT-08 AGR-20 DODE-00 PA-04 USIA-15 PRS-01 NEA-10

SCI-06 PM-07 DRC-01 /241 W
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R 291517Z APR 74

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 3769

INFO AMEMBASSY LONDON

AMEMBASSY VIENNA

US MISSION OECD PARIS 4010

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E.O. 11652: N/A

TAGS: EFIN, NI

SUBJECT: NAIRA/DOLLAR EXCHANGE RATES

REF: LAGOS 3528

1. IN APRIL 26 CONVERSATION CENTRAL BANK GOVERNOR ISONG SAID THAT FMG DECISION UPVALUE NAIRA IN RELATION TO DOLLAR WAS ESSENTIALLY ANTI-INFLATIONARY MOVE, INTENDED TO ALLEVIATE IMPACT OF RISING PRICES OF IMPORTED GOODS. FMG ALSO THOUGHT MOVE JUSTIFIED IN LIGHT NIGERIA'S RISING OIL REVENUES AND RECENT DECLINE OF DOLLAR AGAINST OTHER MAJOR CURRENCIES.

2. ISONG MADE POINT THAT FMG HAS NOT CHANGED ITS CENTRAL RATE, BUT ONLY WIDENED THE BAND OF FLUCTUATION AROUND THAT RATE. HE DECLINED TO COMMENT ON RUMOR PERSISTING IN COMMERCIAL BANK

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CIRCLES TO EFFECT FMG PLANS TO CONTINUE TO INCREASE BUYING

AND SELLING RATES FOR DOLLAR UNTIL IT ACHIEVES EFFECTIVE
UPVALUATION OF NAIRA TO 7 OR 8 PER CENT OVER THE PRE-APRIL RATES.

3. ASKED ABOUT BLACK MARKET ACTIVITIES WHERE NAIRA TRADES AT
ABOUT \$1.20 OR LESS, ISONG SAID THESE ARE SPECIALIZED
TRANSACTIONS, CARRIED OUT BY NIGERIANS WHO HOLIDAY ABROAD
AND WANT MORE THAN OFFICIAL HOLIDAY ALLOWANCE (FOR BUSINESS
TRAVEL ALLOWANCE IS ALLEGEDLY FLEXIBLE AND GENEROUS) OR BY
EXPATRIATES (ISONG MENTIONED LEBANESE AND GREEKS) WHO HAVE NOT
DECLARED OR PAID TAX ON EARNINGS AND PROFITS AND SO WOULD BE
UNABLE MAKE REMITTANCES THROUGH OFFICIAL CHANNELS. HE CAST
ASIDE SUGGESTION THAT BLACK MARKET RATE REFLECTED COMMERCIAL
ASSESSMENT OF NAIRA/DOLLAR RELATIONSHIP.

4. ASKED ABOUT EFFECT OF UPVALUATION ON NAIRA RETURNS
FROM DOLLAR AND STERLING OIL PAYMENTS, ISONG MADE POINT THAT
THESE ARE COVERED IN FMG'S AGREEMENTS WITH OIL COMPANIES.
HE SAID THAT CHANGES IN CENTRAL BANK(S COMMERCIAL BUYING AND
SELLING RATES WOULD HAVE NO EFFECT ON ARRANGEMENTS FOR
PAYMENT OF OIL REVENUES.

5. ON SUBJECT OIL REVENUES ISONG SAID THERE HAD BEEN LONG
DISCUSSIONS WITHIN FMG ABOUT ROYALTY AND TAX TAKE TO USE IN
REVENUE PROJECTIONS FOR FISCAL 1974/75 BUDGET. ON GROUND
THAT FUTURE OF OIL PRICES STILL UNCERTAIN, AND IN KEEPING
WITH ITS CUSTOMARILY CONSERVATIVE APPROACH FMG HAD DECIDED
TO BASE REVENUE PROJECTIONS ON PRICES (AND ROYALTY AND TAX TAKE)
PREVAILING IN OCTOBER 1973 RATHER THAN NEW PRICES REACHED IN
JANUARY 1974. FMG WAS AWARE OF COURSE THAT IT WAS GROSSLY
UNDERESTIMATING OIL REVENUES BUT PREFERRED IT THAT WAY.
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